

STATE OF WASHINGTON



OFFICE OF  
INSURANCE COMMISSIONER

**FOREMOST INSURANCE COMPANY**  
**FOREMOST SIGNATURE INSURANCE COMPANY**  
**AMERICAN FEDERATION INSURANCE**  
**COMPANY**  
**AND**  
**FOREMOST PROPERTY AND CASUALTY**  
**INSURANCE COMPANY**  
  
**MARKET CONDUCT EXAMINATION**

**JUNE 1, 1997- MAY 31, 1998**

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Seattle Washington

March 17, 1999

Deborah Senn  
Insurance Commissioner  
Olympia, Washington 98504

Pursuant to your instructions and in compliance with the laws of the State of Washington,  
a market conduct examination has been made of

Foremost Insurance Company

Foremost Signature Insurance company

American Federation Insurance company

Foremost Property and Casualty Insurance Company

5600 Beech Tree Lane

Caledonia, MI 49506-0050

and this report of examination is respectfully submitted.

The examination of Foremost Insurance Company and Affiliates, hereafter referred to as "the companies" was limited to the activities relating to policies issued in the State of Washington, and to claims closed for Washington insureds from June 1, 1997- May 31, 1998. The examination included a review of the following areas:

Complaint Handling

Underwriting and Rating

Underwriting - Non-Renewal and Cancellations

Claim Settlement Practices

The examination was performed at the companies' home office in Grand Rapids, Michigan.

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## TABLE OF CONTENTS

PAGE	
1	Salutation
2	Table of Contents
3	Examination Report Certification
4	History, Operations and Management
5	Complaint Handling
7	Underwriting and Rating
8	Cancellations and Non-Renewals
10	Claims Settlement Practices
12	Instructions and Recommendations
13	Appendix I

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## EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by Sally Anne Carpenter and Shirley M. Merrill, who also participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

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Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

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## **HISTORY, OPERATIONS AND MANAGEMENT**

There are four members of the Foremost Corporation of America, an insurance holding company, licensed to write various lines of insurance in Washington:

- Foremost Insurance Company, founded in 1952
- Foremost Signature Insurance Company, founded in 1982
- American Federation Insurance Company, founded in 1983
- Foremost Property and Casualty Insurance Company, founded in 1984

The companies are licensed to write property and casualty insurance and also marine transportation, vehicle and surety insurance. Their main focus has been physical damage coverage for motor homes, mobile homes, including commercial mobile homes, and travel trailers. They also offer personal auto and personal umbrella liability coverages.

The companies have filed and approved plans to offer programs such as Collateral Protection, Dealers Physical Damage Insurance, Extended Lender Protection, Home Services Contract, Private Credit Insurance, and Wholesale Floor Plan. Currently these programs are not actively marketed in this state.

Administration of the companies is under the direction of Richard Lee Antonini, President and Chief Executive Officer.

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## **COMPLAINT HANDLING**

The purpose of this section of the examination was to review the companies' complaint handling procedures and compliance to WAC 284-30-360(2) which requires the companies to respond to inquiries from the Insurance Commissioner's office within 15 working days from the receipt of the inquiry. The complaints were also reviewed for possible adverse trends in claim handling or underwriting. This portion of the examination covers the past 5 years to provide adequate data to note any adverse trends.

The companies have written complaint handling procedures. The underwriting department is responsible for initial logging of all complaints which are then distributed to the appropriate department for handling. The companies' log contains complaints received directly, and those received via insurance departments of the states.

From a total of 61 complaints filed between 1993 and 1998, 25 complaint files were selected from the complaint logs for examination. The companies' logs indicated they had taken the following actions on the files selected for review:

Underwriting issues were addressed in 7 files.

1 file required corrective action.

Claims issues were addressed in 17 files.

5 files required correction.

3 files acknowledged investigation delays.

1 file is still open and negotiations continue.

Service issues regarding an agent's late delivery of a policy were addressed in 1 file.

The companies acknowledged there was an isolated problem with this agent.

All of the files reviewed met the requirement for timely response to the Insurance Commissioner and the companies' time frame noted in their procedures for resolution or response.

Our findings:

RCW 48.05.190(1) requires insurers to conduct business in their own legal name.

- 1 file (claim file 580-0400) contained a response to the Office of the Insurance Commissioner on generic letterhead, without identifying the actual insurer.

RCW 48.18.260(1) requires the companies to deliver policies in a reasonable amount of time.

- 1 file did not meet this requirement. (policy #063-242-7552)

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WAC 284-30-370 requires every insurer to complete the investigation of a claim within 30 days after notification of a claim unless such investigation cannot reasonably be completed within such time.

- The companies' log notes acknowledged that 3 files contained unwarranted delays in the investigation. (See Appendix I for additional claim detail)
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## **UNDERWRITING AND RATING**

The companies processed the following new and renewal business during the period examined:

Foremost Signature Company

8141 policies / sample size 50 policies

Foremost Insurance Company

4586 policies / sample size 50 policies

Foremost Property and Casualty

1827 policies / sample size 50 policies

American Fidelity Insurance Company

295 policies / sample size 25 policies

The majority of the business in Washington is mobile home coverage, both personal and commercial. The companies also write motor home, travel trailer, personal auto, and personal umbrella coverage.

Files were reviewed to determine if

- the companies were following their filed rating plans
- the companies were utilizing their underwriting rules consistently
- the companies were in compliance with Washington state laws

The examiners also manually rated policies to determine if there were any programmed errors on the companies' computer system and if the companies were using their filed and

approved rates and rules. No computer processing errors were identified. There was no evidence that the companies had deviated from their underwriting rates and rules.

The companies offered flood insurance until August 1, 1997 with their mobile home program. After that date, the coverage was no longer available for either new business written, or renewals. A pre-renewal letter was sent to insureds advising of the changes and advising them to contact their agent regarding the National Flood Program. Flood coverage was deleted on all renewals after August 1, 1997.

No violations were noted.

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## **UNDERWRITING - CANCELLATIONS and NON-RENEWALS**

One hundred seventy-five policies from a population of 12,564 policies canceled and 43 policies from a population of 205 policies non-renewed during the exam period were selected for review to determine if the companies issued notices and processed unearned premium in compliance with Washington law.

RCW 48.17.591(1) does not permit an insurer to non-renew a policy because the agent and company have terminated their contractual relationship.

- 4 policies were non-renewed with the following statement: "Your agent no longer represents Foremost. Please contact your agent for replacement coverage."

The policies are:

- 103-0617417765
- 103-0621313556
- 103-0626132360
- 104-0627171871

The companies advised there was an established procedure in place to offer renewals to insureds when the agent agreement was terminated. However, built into their programming was an override function for specific agent cancellation codes. These 4 policies were non-renewed as a result of a manual override of the system.

Subsequent event: The companies have stated they will retrain employees in these areas and will add this to their Compliance Unit as a function to monitor. The companies also stated they will review and revise related systems, procedures and controls to help ensure future compliance.

WAC 284-30-570 requires that the actual reason be given when an insurer is canceling, denying or refusing to renew insurance.

- Four violations were found during the examination:

3 policies contained non-renewal notices showing the reason for non-renewal in non-standard abbreviations making it difficult to understand:

- 104-062572409-4
- 104-062402272-2
- 104-062827085-6

1 policy, 104-603411067-0, gave the reason as a list containing 3 losses, one of the losses was identified as Amiscellaneous."

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RCW 48.18.300(2) requires the insurer to pay to the insured any unearned portion of any premium paid when an insured cancels a policy. One violation was noted.

- Policy 104-0626357152-96 was canceled at the request of the insured. The companies returned the unearned premium to the mortgage company as their records indicated the mortgage company had originally paid the renewal premium. When questioned about this practice, the companies stated their procedure was to return premiums to the entity who had submitted it.

Subsequent event: As of August 8, 1997, the companies had a procedure in place to return premiums to the insured except for cancellation for repossession. Because of this examination, the companies have agreed to amend their procedures to return any unearned premium to the insured, except when the companies have a copy of a contract between the insured and the lien holder waiving this requirement.

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## **CLAIMS SETTLEMENT PRACTICES**

A total of 5,699 claims were closed during the examination period. Examiners selected 239 claims for review. The files were examined for compliance with laws regarding fair claims practices, total loss settlement, salvage disposal, and handling of subrogation.

The companies handle most claims by phone from offices in Michigan. The more complex claims or those with serious damage are handled by resident adjusters supervised by the Redlands, California claims office, or through independent adjusters.

One subrogation file was returned for additional handling. The deductible refund was calculated incorrectly. This resulted in an additional payment of \$70 to the insured.

Our findings are as follows:



RCW 48.05.190 requires companies to do business in their own legal name.

- The companies acknowledged they were using forms and letters in their claim handling that did not comply with the law. Samples of these forms and letters are contained in the work papers.

Subsequent event: The companies advised all claim handlers of the requirement to add the specific company name in all correspondence. The companies changed procedures to require the transcription department to hold all correspondence until the claim handler has provided the correct name of the insurer prior to mailing.

WAC 284-30-330(16) Failure to adopt and implement a reasonable standard for the processing and payment of claims once the obligation to pay has been established is defined as a specific unfair claims practice.

- The companies acknowledged they did not handle the stop payment and reissue of claim checks in a consistent manner. Larger checks are not replaced until the check is returned to the company for re-issue or the stop pay has been in place for 60 days. This is not a reasonable approach to timely payment of claims.

Subsequent event: The company issued Claims Bulletin # 98-6, in November 1998, documenting revised procedures for consistent handling of replacement checks.

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Appendix I contains claim detail of the violations listed below. Some claim numbers will appear more than once if the claim contained multiple violations.

WAC 284-30-340 states that claim files shall contain all notes and work papers pertaining to the claims in such detail that pertinent events and the dates of such events can be reconstructed.

- 4 files did not contain sufficient documentation to satisfy the requirements of the regulation. See Appendix I for detail.

WAC 284-30-370 states that every insurer shall complete investigation of a claim within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such time.

- 9 files did not meet this requirement. See Appendix I for detail.

Subsequent event: The companies advise that their quarterly internal audits of Washington claims will focus on reinforcing the findings of this exam by addressing the requirements for adequate documentation, timely investigations and proper identification of the company name on correspondence.

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## **INSTRUCTIONS AND RECOMMENDATIONS**

### Instructions

1. The companies are instructed to comply with RCW 48.05.190(1) and establish procedures that ensure all correspondence correctly identifies the legal name of the insuring company. (Pages 5&10)
2. The companies are instructed to comply with RCW 48.17.591(1) and offer renewals pursuant to the requirements of this law when the agent/insurer relationship has been terminated. (Page 8)
3. The companies are instructed to comply with WAC 284-30-570 which requires that the actual reason be given when an insurer is canceling, denying or refusing to renew insurance. (Page 8)
4. The companies are instructed to comply with RCW 48.18.300(2) which requires the insurer to pay to the insured any unearned portion of any premium paid when an insured cancels a policy. (Page 9)
5. The companies are instructed to comply with WAC 284-30-330(16) which requires the company to adopt and implement reasonable standards for the processing and payment of claims once the obligation to pay has been established. (Page 10)
6. The companies are instructed to comply with WAC 284-30-340 regarding documentation of claim files to insure they contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed. (Page 11)
7. The companies are instructed to comply with the requirements of WAC 284-30-370 which requires every insurer to complete the investigation of a claim within 30 days after notification of a claim, unless such investigation cannot reasonably be completed within such time. (Pages 6&11)

### Recommendations

1. It is recommended that the companies establish and monitor performance standards and time frames for their independent adjusters and appraisers that are consistent with the companies' standards of performance for their field adjusters.

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## **APPENDIX I**

## CLAIMS

Violation/ Claim number	Comments
<b>WAC 284-30-340 states the insurer's claim file shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed.</b>	
5849773	File did not contain documentation of all telephone calls with the insured.
5871254	File did not contain documentation of a response to a telephone call from someone seeking coverage.
5876737	Office of the Insurance Commissioner (OIC) complaint file. File does not reflect claim handler file activity or phone calls.
5795648	File documentation is incomplete regarding initial delay in contacting the insured and there are no notes documenting the resolution of the claim.
<b>WAC 284-30-370 states the every insurer shall complete investigation of a claim within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such time.</b>	
5876737	OIC complaint file. Investigation not completed within 30 days. Settlement delayed due to claim handler's inactivity between 1-15-98 and 2-17-98 per supervisor's notes.
5795648	Investigation not completed within 30

	<p>days. Claim handling was delayed after initial report and contact with the insured between 5/9 and 5/21. There is no contact with the insured between 5/21 and 6/18 when the insured complained. Damages were not inspected until after the 6/18 call.</p>
5790525	<p>Investigation not completed within 30 days. Claim delayed because of delay in contact, and companies' failure to follow up with Independent Appraiser for damage inspection. Inspection assigned 5/14/98, rec'd 6/13/98.</p>
5781712	<p>OIC complaint file. Investigation not completed within 30 days. Claim handler in training for an unknown amount of time, no other adjuster assigned. Insured called regarding lack of contact 4/21, phone complaint from insured because of no contact 5/5, assigned to Independent to inspect damages 5/19/97.</p> <p>OIC complaint received 5/28/97. The claim was unresolved at that time. OIC was advised the claim settled 6/12/97.</p>
5800400	<p>OIC complaint file. Investigation not completed within 30 days. Supervisor acknowledges delay in handling in response to OIC inquiry.</p>
5761439	<p>Investigation not completed within 30 days. Claim assigned to Independent Appraiser 2/7/98, materials received from independent on 3/25/98. Claim delayed because of the companies' failure to follow up with independent appraiser for the results of the damage inspection to complete the investigation.</p>

5800818	<p>Investigation not completed within 30 days.</p> <p>Loss reported 5/23/98, supervisor notes give further instruction on investigation still to be completed on 6/21/98.</p>
5803372	<p>Investigation not completed within 30 days. Claim delayed because of the companies failure to follow-up with the independent appraiser for the results of the damage inspection to complete the investigation.</p>
5748469	<p>Investigation not completed within 30 days. Supervisor acknowledged delays in file notes of 4/21/97</p>